World Trade Developments in 2004 and Prospects for 2005.

1. Highlights of world trade in 2004

The year 2004 witnessed strong economic growth across most major regions, providing a solid basis for vigorous global trade expansion. Trade and GDP were particularly buoyant in South and Central America and in the Commonwealth of Independent States (CIS), while North America, Asia and to a lesser extent Europe also recorded some acceleration in trade and output growth. A noteworthy feature in 2004 was that the two most populous countries in the world – China and India – recorded outstanding economic growth (9.5 per cent and 7.3 per cent respectively) and trade expansion for the second year in a row.

Trade growth continued to exceed output growth in 2004. Sectoral developments highlight the fact that the excess of trade over output growth was particularly large for manufactures and only marginal for agricultural products. The volume of trade in fuels and other mining products expanded somewhat faster than output, with output recording its highest growth in more than a decade. The sharp rise in demand for many primary commodities, in particular fuels and other mining products, resulted in tight markets and substantial price increases. The depreciation of the US dollar by nine per cent *vis-à-vis* a basket of European currencies in 2004 contributed to a rise in Europe's dollar trade prices and nominal trade values. The combination of higher commodity prices and stronger European currencies led to a double-digit nominal price rate of growth in international trade.

Price developments were often the major factor in explaining the relative strength of trade flows in 2004. This observation is valid for both merchandise and commercial services trade. Largely due to sharply higher prices, the value of world exports of iron and steel, ores and minerals, non-ferrous metals and fuels increased between 30 per cent and 45 per cent in 2004. This recent surge in value growth contrasted with the long-term decline of the shares of these product categories in world trade.

A new and more detailed product breakdown of world merchandise trade presented in this report highlights the strength of exports of scientific and controlling instruments, which expanded faster than other manufactured goods, both the short- and medium-term. In 2004, trade in scientific and controlling instruments almost equalled that in textiles.

Merchandise exports of the (CIS), Africa, and the Middle East, consisting for the most part of fuels and other mining products, rose between 29 per cent and 37 per cent in 2004. South and Central America's exports, which are more diversified, increased by nearly 30 per cent, helped by the economic recovery in Argentina and Venezuela. Imports of Asia, Europe and North America, all net importers of fuels and other mining products, increased in value terms faster than exports largely due to relative price developments. The rise in commodity prices, together with an increase in fuel export volumes, enabled the LDCs to participate fully in the global trade expansion and to increase their share in world merchandise exports and imports in 2004.

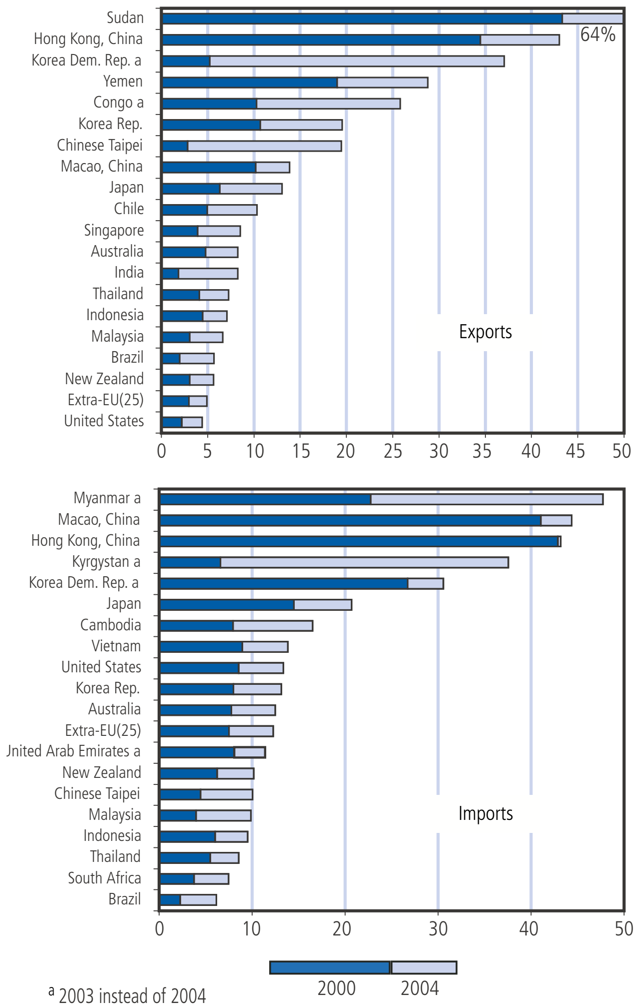
A particularly notable feature of world trade in 2004, after the rise of oil prices, was the continuing emergence of China as a major market for, and supplier of, goods and services. The sustained and dynamic growth of China's exports and imports over recent years ranked it third among the leading traders in 2004. For many commodities, China has become the largest importer and for a number of manufactured goods, the largest supplier in the world. Chart 1 below highlights China's increased importance as a trading partner for selected economies between 2000 and 2004. Unsurprisingly, the share of China tends to be particularly high in many Asian economies, and a number of commodity exporters in Africa and the Middle East are also shipping a major part of their exports to China (e.g. Sudan, Congo and Yemen).

For a number of countries, China's export or import share has doubled over the last four years. The rapid rise of China in international trade is creating opportunities for many but also calling for adjustment from others. Suppliers of primary commodities welcome increased Chinese demand, while other importers have to compete more strongly and pay, on average, higher prices for their commodity imports. China's enhanced role as a supplier of electronic goods and textile products has sharpened the competition and exerted a downward pressure on prices in these sectors. While this is good news for consumers, producers of these goods in developed and developing countries are forced to adjust to a new situation. The international trading system faces a challenge in ensuring that these adjustments proceed gradually without protectionist backlashes. The ongoing trade negotiations of the Doha Round provide an opportunity to strengthen the global trading system against costly inward-looking tendencies.

Chart 1

Share of China in selected economies' merchandise exports and imports, 2000 and 2004

(Percentage share)



2. Trade volume and output developments in 2004

In 2004, the volume of merchandise trade exports rose by 9 per cent, the highest performance since 2000. This acceleration is attributable largely to the dynamic performance of trade in manufactures, which expanded by 10 per cent, or twice as fast as in 2003. World merchandise production was up by 4 per cent, the best result since 2000, when global merchandise production rose by more than 5 per cent (Chart 2).

Agricultural trade is estimated to have grown in real terms by 3.5 per cent in 2004, a rate unchanged from the preceding year. North American exports of agricultural products stagnated and those of Europe rose by 2.5 per cent, which was less than the global average. South and Central America, as well as the CIS region and Africa, recorded above average export growth. Asia, a net importer of agricultural products, increased its exports by 3 per cent in 2004. Agricultural trade growth continued to exceed output growth (3 per cent), but by the smallest margin since 2000.

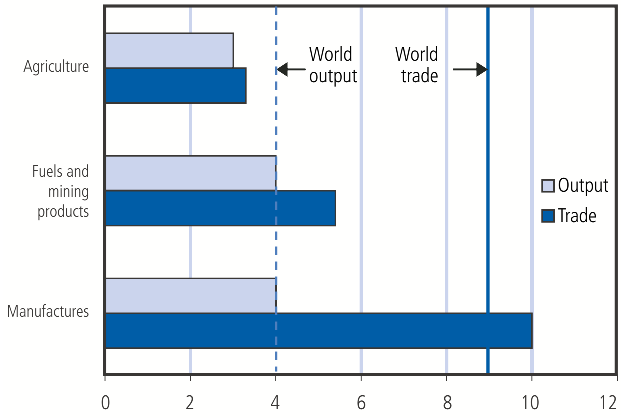
Sharply higher prices for fuels and mining products on international markets went together with a further strong volume rise in global trade in this category. The expansion of trade in fuels and mining products in 2004 was 5.5 per cent, which was even more vigorous than in the preceding year. This was despite a deceleration of shipments from the Middle East, the major supplier, to about 5 per cent. A rebound of exports from both Americas, combined with a continuation of the high export expansion of the CIS and Africa, contributed to this robust trade expansion in 2004, which significantly exceeded the average long term growth (1973-2004). A large part of the increased exports were directed to the United States and China to cover their high oil import demand. Output growth in the global mining sector rose by somewhat more than 4 per cent. Such a strong annual expansion in output was last seen in 1989.

Global trade growth in manufactures, which expanded by 10 per cent in 2004, exceeded growth in global manufacturing output by a large margin. Once again, it is mainly the manufacturing sector which is largely responsible for the excess of merchandise trade growth over merchandise output (see Chart 2 and Chart II.1).

Trade in manufactures rose by 10 per cent in real terms in 2004, the highest performance since 2000. A rebound of exports from North America (9 per cent) and Europe (7 per cent) was the principal factor behind the more vigorous expansion of global trade in manufactures. The two regions combined still account for nearly two thirds of global trade in manufactures. Asia's real exports of manufactures are estimated to have expanded by 15 per cent and amount to 30 per cent of world trade. The strength of Asia's trade performance had been even more outstanding over the medium term. Between 2000 and 2004, the export volume of manufactures from Asia is estimated to have increased by 40 per cent, from Europe by 13 per cent, while North America's export volume (due to contraction in 2001 and 2002) only regained its previous peak level of 2000 in 2004.

Real trade in commercial services at a global level is difficult to estimate due to insufficient price information. However, for some major traders, information is provided in their national accounts data. According to this information, real export and import growth of services was less dynamic than that of merchandise.[1]

Chart 2
Volume growth of world merchandise trade and output by sector in 2004
(Percentage change)



3. Merchandise and commercial services trade in dollar value by sector

In 2004, the dollar value of world trade was boosted by volume and price changes. Prices of primary products and of transportation services recorded very sharp increases. World merchandise trade expanded by 21 per cent, to $8.9 trillion. This represents the strongest annual value increase since 1979 (see Table II.1). Price changes accounted for slightly more than half of this value increase. Exports of fuels and other mining products expanded by almost one third in 2004 and, as in the preceding year, substantially faster than trade in manufactures or agricultural products, which rose by 20 per cent and 15 per cent respectively. World commercial services exports rose 18 per cent in 2004, and for the first time surpassed the $2 trillion mark (Table 1). Between 2000 and 2004, both global merchandise and commercial services exports rose at an average annual rate of about 9 per cent. For the first time since 1995, the export expansion of transportation services exceeded that of other commercial services. Travel services recovered strongly in 2004, but still account for a smaller share in services trade than in 2000.

[1] In the United States real services exports rose 7.4 per cent and imports 9.6 per cent in 2004, in each case about 1.5 percentage points less than the rise in its real goods trade. In the EU(25) real services exports went up by nearly 5 per cent and real services imports by about 3 per cent in 2004. Again, the expansion of goods trade was significantly stronger than that of services trade

Table 1

World exports of merchandise and commercial services, 2000-04

(Billion dollars and percentage)

	Value	Annual percentage change			
	2004	2000-04	2002	2003	2004
Merchandise	8907	9	5	17	21
Agricultural products	783	9	6	16	15
Fuels and mining products	1281	10	0	23	32
Manufactures	6570	9	5	16	20
Commercial services	2125	9	7	14	18
Transportation	500	10	4	14	23
Travel	625	7	4	10	18
Other commercial services	1000	11	10	16	16

Merchandise trade by product group

An overview of world merchandise exports by product in 2004 is provided in Chart 3 and in Table IV.1 according to a new, more detailed product breakdown. For a description of changes, see Box.1. One outstanding feature of merchandise trade in 2004 was the unusually large variation in the year-to-year value changes between the various product groups. In four product groups – iron and steel, ores and minerals, non-ferrous metals, and fuels – world exports expanded between 46 per cent and 31 per cent, while for three others – agricultural products, textiles, and clothing – the export growth was far weaker, ranging between 15 and 11 per cent. The wide differences observed in value growth are largely explained by the divergent price trends among products. United States import price developments illustrate this feature rather well. In 2004, US import prices for iron and steel products rose by nearly 40 per cent, while those of clothing stagnated. United States import prices for fuels and other mining products averaged 28 per cent, while those for agricultural products rose by 9 per cent. For more information on trade prices, see Appendix Tables A.26 through A.28. The new product breakdown adopted in this report also highlights the dynamic trade expansion of the category scientific and controlling instruments in recent years. In 2004, world exports in this category rose by 27 per cent, to $188 billion, nearly matching world exports of textiles. Trade in this product group is largely concentrated on flows between Europe, Asia and North America.

Box 1: New country and product groups in WTO's trade statistics

The WTO has recently adopted new standard geographical and commodity groups which appear for the first time in this year's edition of *International Trade Statistics.* It is hoped that these changes will provide additional insight into recent economic and technological developments, while still maintaining a high degree of historical consistency with earlier editions of the publication. The most important changes to the geographical groups involve the enlargement of the European Union from 15 to 25 members and the inclusion of Mexico in North America. Existing product groups have been carried over with few changes, although more detailed breakdowns have been provided for certain products. Please refer to the technical notes for details.

Summary of changes to the geographical groups

The accession of 10 new member States to the European Union in May 2004 rendered our previous groups *Western Europe* and *Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States (transition economies)* obsolete. Consequently, two new groups have been created: *Europe* and the *Commonwealth of Independent States.* The new *Europe* aggregate is divided into the *European Union (25)* and *Other Europe*.

Mexico has been included in *North America* because of its geographic location and its high level of economic integration with the region. In the past, Mexican trade flows largely dominated *Latin America's* trade with the United States and tended to distort aggregate trade figures for the region. As a result, the former *Latin America* group has been replaced by a new group labelled *South and Central America and the Caribbean* which excludes Mexico. Other regions remain unchanged from previous years.

It will still be possible for users to obtain regional trade figures for *Latin America* and *North America excluding Mexico* through our online database at http://stat.wto.org. However, for the new *Europe* aggregate, we are unable to provide historically consistent time series at the detailed product by partner level prior to the year 2000.

Summary of changes to the product groups

Product classifications require periodic adjustments to account for technological developments and changes in global trade patterns. There have been many such developments in recent years that warranted the current revisions to WTO's product groups. These revisions fall into two broad categories: 1) the renaming of existing groups to promote transparency and clarity of presentations; and 2) the addition of new groups to provide more detailed breakdowns for major products.

All existing WTO products have been carried over under the new classification, but some have been renamed in

Box 1 (*continued)*

the interest of clarity. For example, the previous *Mining products* group continues to exist under the new name *Fuels and mining products*. This change reflects the fact that fuels represent the largest component of this particular aggregate. Another example is the former *Electrical machinery and apparatus*, which has been renamed simply *Electrical machinery* to facilitate presentation in tables.

More significant from the user's point of view is the addition of new product aggregates. The group *Chemicals* has now been broken down into *Pharmaceuticals* and *Other chemicals* due to the increased importance of pharmaceutical products in international trade. *Office and telecommunications equipment* has also been disaggregated into the subgroups *Electronic data processing and office equipment*, *Telecommunications equipment and Integrated circuits and electronic components*. *Other consumer goods*, renamed as *Other manufactured goods*, were subdivided into *Personal and household goods*, *Scientific and controlling instruments*, and *Miscellaneous manufactures*. This was done because the existing groups had become quite large and were too heterogeneous to provide meaningful information. Please refer to the technical notes for the precise definitions of the new products.

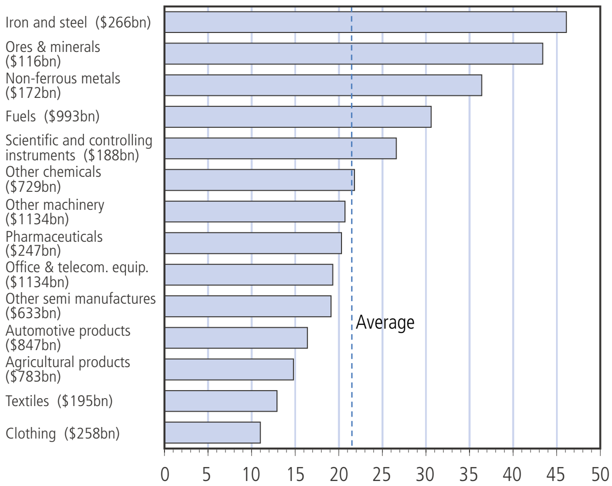
World exports of *agricultural products* expanded by 15 per cent, to $783 billion dollars in 2004.[2] Export growth was not only less rapid than in 2003, but also lower than for world merchandise trade, bringing the share of agricultural products in global merchandise trade back to its long-term low of 8.8 per cent (first reached in 2000). The rise in the dollar value of global agricultural trade is attributable largely to price developments, as unit values of agricultural products are estimated to have increased by 11 per cent in 2004. Exports of agricultural raw materials expanded faster than those of food, which represents a departure from past trends. Europe's exports of agricultural products rose somewhat less than global trade, and accounted for 47 per cent of world exports in 2004. Intra-European trade in agricultural products represented 38 per cent of the world total in these products in 2004. North America not only recorded the slowest export growth in 2004, but its share in world exports of agricultural products has decreased by 4 percentage points since 2000, to less than 17 per cent in 2004. United States exports of agricultural products, affected by poor weather and the discovery of Bovine Spongiform Encephalitis (BSE) in the US cattle livestock in December 2003, recorded 4 per cent growth – the lowest rate among the major exporters (see Table IV.8).[3] Agricultural product exports of South and Central America, Africa and the CIS recorded above-average growth for the second year in a row. Consequently, their share in world exports in this category has increased markedly between 2000 and 2004. Although Asia's agricultural exports have exceeded those of North America since 2003, the region remains the world's largest net importer. Australia's exports rebounded by 35 per cent, the strongest gain among the leading agricultural exporters in 2004. Among the leading agricultural importers, China reported an import expansion of about 40 per cent for the second year in a row.

Exports of *textiles and clothing* recorded increases of 13 per cent and 11 per cent respectively, the weakest growth among the major product groups in 2004. The relatively lacklustre growth in the dollar value of these products can be partly attributed to moderate price changes.[4] Since 2000, the combined share of textiles and clothing has decreased by one half of a percentage point, to 5.1 per cent of world merchandise exports in 2004. The rather moderate nominal expansion of world trade in textiles and clothing was accompanied by profound shifts among suppliers.

Chart 3

World merchandise exports by product group, 2004

(Annual percentage change)



Hong Kong, China, the Republic of Korea and Chinese Taipei experienced an absolute decline in their export shipments of clothing, as did the United States and Mexico, not only in 2004 but in each of the four years ahead of the termination of the ATC quota system (December 31, 2004). Among the countries that increased their share in (textiles and) clothing exports in recent years are China, Turkey, Romania, Viet Nam and Tunisia. These countries recorded double digit export growth not only in 2004, but also over the entire 2000-2004 period.

Among the major suppliers, China expanded its shipments of textiles and clothing more than two times faster than global trade over the last four years.[5] In 2004, US imports of clothing from China rose by more than one third, to $16.2 billion, exceeding for the first time the corresponding imports of the EU(25) and Japan (Table IV.81). Europe's textile and clothing exports increased somewhat more than 10 per cent, and thereby only slightly less than world trade. Africa's exports of clothing rose by about 10 per cent, to $9.5 billion in 2004. Although African exports continued to expand faster to the United States than to the EU(25) market, and continued to gain import market share in the former and a loss in the second, African clothing shipments to the EU(25) ($7.7 billion) were still three times larger than those to the United States (see Table IV.81).

[2] The definition of agricultural products applied in this report differs from that used in the WTO Agreement on Agriculture. See Technical Notes in the Appendix.

[3] Bad weather and diseases led to an 11 per cent decline in US soybean production and a 15 per cent fall in US soybean exports. Cattle and beef exports shrank by 83 per cent or 2.9 billion in 2004.

[4] In the United States, for example, clothing import prices stagnated, while import prices of all merchandise rose by 5.7 per cent (see Appendix Table A28). United States clothing imports rose by 6 per cent in value and volume terms in 2004.

[5] Some caution is indicated in the analysis of the rise in China's textiles trade. Chinese customs reports indicate that $2.4 billion or 16 per cent of China's textiles imports originated from China in 2004. These imports from China entail a certain type of double counting (see Box 2).

World trade in *automotive products* rose by 16 per cent, to $847 billion in 2004. For the first time since 1997, trade in automotive products expanded less than that of manufactured goods. Europe's exports of automotive products again rose faster than the global average and accounted for 57 per cent of world trade. A large part of this increase is due to an expansion of intra-European trade. Asia's exports expanded by 20 per cent, to $172.5 billion in 2004, exceeding for the first time those of North America. Among the Asian countries, the Republic of Korea sharply increased its exports (40 per cent) while those of Japan continued to lag behind the growth in global exports of automotive products. Despite this less dynamic export performance, Japan still accounts for more than two thirds of Asia's automotive exports. The share of North America in world exports of automotive products decreased by 7 percentage points between 2000 and 2004, to 20.3 per cent of world exports. Most of this decline has to be attributed to the sluggishness of intra-North American trade. The net-fuel exporting regions – the Middle East, Africa, the CIS and to a lesser extent also South and Central America – have been the most dynamic import markets for automotive products over the last two years. While Europe's automotive product exports exceed those of Asia to Africa and the CIS, Asian exports are greater than those of Europe to the Middle East and to South and Central America (see Table IV.64).

International trade in *office and telecom equipment* rose 19 per cent, to $1134 billion in 2004. Trade in this product category expanded at nearly twice the rate of world merchandise trade in the 1990s, but has fallen short of the rate of global trade expansion in each year since 2000. A new breakdown of world trade statistics in office telecom equipment into three subcategories, namely electronic data processing (EDP) and office equipment, telecom equipment and integrated circuits, reveals marked differences in their recent trade performance. International trade in telecom equipment was the least affected by the burst of the IT bubble in 2001-02 and recorded an outstanding growth rate of 25 per cent in 2004. Exports of EDP and office equipment, as well as those of integrated circuits, contracted sharply in 2001-02 and grew less strongly thereafter. Only in 2004 did these two product groups recover fully from their trade contraction and attain their previous peak level of 2000.

A regional breakdown of exports of office and telecom equipment in 2004 confirms Asia's leading role in world trade in these products. Asia's exports of office and telecom equipment rose by 25 per cent, two times faster than exports of all the other regions combined (12.4 per cent). Within Asia it is above all the rise of exports from China which is outstanding. Its exports of office and telecom equipment are reported to have increased by 46 per cent, or three times faster than the rest of the world. The increase of Chinese imports by more than one third is still twice that of all other countries combined. China has become the world's largest importer of integrated circuits and its exports of EDP and office equipment exceeded the combined exports of the United States and Japan (Tables IV.50 and IV.58).

It is a well known feature of international trade in office and telecom equipment that it contains a large element of double counting linked to the deep cross-border integration of the production process of electronic goods. This leads to a large back-and-forward flow of intermediate inputs or components. In the case of China, a further element to be taken into account is the ever closer link between the Chinese economy and that of Hong Kong, China. There are few trade barriers left between China and Hong Kong, China. The latter economy has long since abolished all tariffs and China's imports into bonded areas, the main source of its exports, are also duty free. In addition, the Closer Economic Partnership Agreement (CEPA) between the two economies and China's membership in the Information Technology Agreement (ITA) provide for duty free import into China of a large number of IT products. Against this background one has to note that a large and increasing part of China's trade in office and telecom equipment is affected by exports of office and telecom products which return to China after being exported to Hong Kong, China, which is used as a transportation/distribution hub (see Box 2).

Box 2: China's trade statistics

China's share in world merchandise trade has more than doubled over the last decade and exceeded 6 per cent in 2004. An analysis of this outstanding trade performance calls for good knowledge of China's trade statistics. A closer look at China's merchandise trade returns reveals a unique feature: China reports sharply rising imports from China, a trade flow which accounted for nearly 7 per cent (or $38.7 billion) of its merchandise imports in 2004[1]. These imports consist of products which have been "produced or manufactured wholly" in China and have not undergone "substantial transformation" abroad after being exported. Even if China's customs authorities strictly apply the international recommendations in respect to the "rules of origin", it might be argued that these goods should not to be considered as a part of China's foreign trade (with adjustments made on both the export and import side) in an economic analysis.

What explanation can be given for the existence and rise of China's imports from China? The deep integration of the economy of Hong Kong, China with that of China through FDI flows and reduced trade barriers increases not only the exchanges between the two economies, but blurs in some cases the differences between foreign and domestic trade, thus complicating the analysis of China's reported trade by trading partner. The sharp rise in recent years of this particular trade flow can be attributed to various factors, all of which are linked to these closer economic ties between China and Hong Kong, China:

Hong Kong, China's conversion to a services economy was supported by its enhanced role as a distribution centre of globally operating multinationals with production plants in China. These firms produce goods in China, export them to an affiliated or unaffiliated global distributor located in Hong Kong, China, from which goods are then shipped to many destinations including shipments back to China.

Some goods produced in one bonded area in China have to be processed further or used as inputs in a plant located in a second bonded area in China. The shipment between the two plants, however, may be made not directly but via Hong Kong, China. The reason for this triangular trade could be higher administrative and/or transportation costs between the two bonded areas in China than between bonded areas in China and Hong Kong, China. The higher administrative costs (time and fees) for trade between bonded areas in China might be due to the administration of tax collection and tax refund systems. Triangular trade flows between two bonded areas in China via Hong Kong, China and the return of goods

Box 2 (*continued)*

through a distribution platform located in Hong Kong, China obviously involve minimal value-added. The question arises whether these trade flows should be recorded as foreign trade.

Another category of products reported as imports from China involve trade flows linked to inward processing activities of Hong Kong, China based companies. Textiles produced in China which undergo some transformation by a Hong Kong, China company in Hong Kong, China, and are thereafter returned to China, may include value added that is too small (less than 30 per cent) to qualify as a foreign product (of Hong Kong, China).

The product structure of China's imports from China reveals that in absolute terms, office and telecom equipment is the largest category ($19.5 billion in 2004) in this particular trade flow. The share of these returned goods is particularly large in electronic data processing equipment (29 per cent), telecom equipment (25 per cent) and in textiles imports (16 per cent).

[1] General Administration of Customs of the People's Republic of China, China's Customs Statistics, Monthly Exports and Imports, 12, 2004, p.4

In 2004, international trade in *chemicals* continued to expand faster than trade in manufactures. Global exports of chemicals rose by 21 per cent to $976 billion and accounted for 11 per cent of world merchandise trade for the first time. Trade in *pharmaceuticals*, which was the most dynamic component of world chemicals trade over the last decade, expanded slightly less than *other chemicals*, which rose by 22 per cent in 2004.[6] Other chemicals include petrochemicals, which recorded a substantial price increase in 2004, contributing to a large rise in export values. Largely due to these relative price differences between pharmaceuticals and other chemicals, all regions whose chemicals exports contain a large share of petrochemicals, such as the Middle East, the CIS and South and Central America, recorded particularly strong growth in their chemical exports in 2004 (ranging between 25 per cent and 30 per cent). North America's exports of pharmaceuticals, which lost market shares at the beginning of this decade, surged 25 per cent in 2004, boosted by an increase of one third in US shipments to Europe. Despite this marked rise of US exports to Europe, the bilateral trade flow in pharmaceuticals remained largely in favour of Europe (Table A.16). European pharmaceutical exports to the world rose to $200 billion and accounted for about 80 per cent of world trade. Intra-European trade alone accounts for 56 per cent of world pharmaceutical exports in 2004. Switzerland maintained its prominent position as the world's third largest exporter. Its pharmaceuticals exports rose by 23 per cent, to $23 billion, and nearly matched those of the United States (see Table IV.40).

The sharp rise in average crude petroleum and coal prices in 2004 boosted the dollar value of international *fuels* trade to nearly $1000 billion, a new record level. Strong domestic oil demand in the United States and China, which was not matched by an increase in domestic oil output, led to a surge in net imports of oil. Although global oil production rose by 4.5 per cent in 2004, the rise in import demand led to a reduction in spare production and refining capacity, and as temporary transportation bottlenecks emerged, tight markets resulted in higher prices. Chart 4 reports on the evolution of oil demand in some major economies and highlights the marked rise of oil imports of the United States, China and India. The EU(15), Japan and the Republic of Korea which had long been large net importers of oil, diversified their energy sources and limited the rise in oil demand over the last decades.[7]

The share of crude petroleum and petroleum products in international fuels trade has remained rather stable over the last decades, at about 80 per cent, which is more than twice the share oil holds in global energy consumption. Natural gas has increased its share in the value of world fuels trade to about 13 per cent, largely at the expense of coal, which in 2004 is estimated to have counted for about 5 per cent. The Middle East remained by far the largest exporter of fuels in 2004 ($284 billion), although both the CIS and Africa recorded larger export growth not only in 2004, but also over the 2000-04 period. Africa's oil production rose by 10 per cent, or more than twice global output growth, in 2004. Its fuels exports, estimated at $120 billion, exceeded those of the CIS for the first time. The expansion of African fuel exports in recent years is partly due to the emergence of new producers and exporters in the region, such as Chad, Equatorial Guinea and Sudan. Despite the rise in the number of African oil exporters, a large majority of the more than fifty African countries remain net importers of fuels.[8]

Commercial services trade[9]

Exports of *transportation* services increased in 2004 by 23 per cent to $500 billion. Among the three major commercial services categories, transportation services account for the smallest share but for the strongest increase in 2004. This is a departure from past trends, when transportation services recorded trade growth well below that of the two other services categories. An explanation for this untypical development can be found in the combination of strong merchandise trade growth and higher transportation costs.[10] Asia and the CIS region, which recorded the most dynamic expansion of merchandise trade, also reported the largest increase in imports of transportation services.

Travel services rose worldwide by 18 per cent, to $626 billion, and thereby much faster than in the preceding year. This acceleration in the export growth of travel services can be largely attributed to the rebound of exports in Asia (31 per cent) after the contraction in 2003 caused by the outbreak of the SARS epidemic. Asia's travel receipts in 2004 exceeded those of North America (including Mexico) for the first time, although the latter region recorded positive annual growth for the first time after the events of September 11, 2001. United States' exports of

[6] A review of the dynamic expansion of world exports of pharmaceuticals can be found in WTO, World Trade Report 2005 available at : http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr05-1b_e.pdf

[7] In the case of the EU(15) the rise in North Sea oil production sharply reduced the need for extra-regional oil imports. Beside energy conservation measures, an increase in liquefied natural gas contributed to limit oil imports of Japan and the Republic of Korea.

[8] See WTO, World Trade Report 2005, Part B, on oil market developments and developing countries.

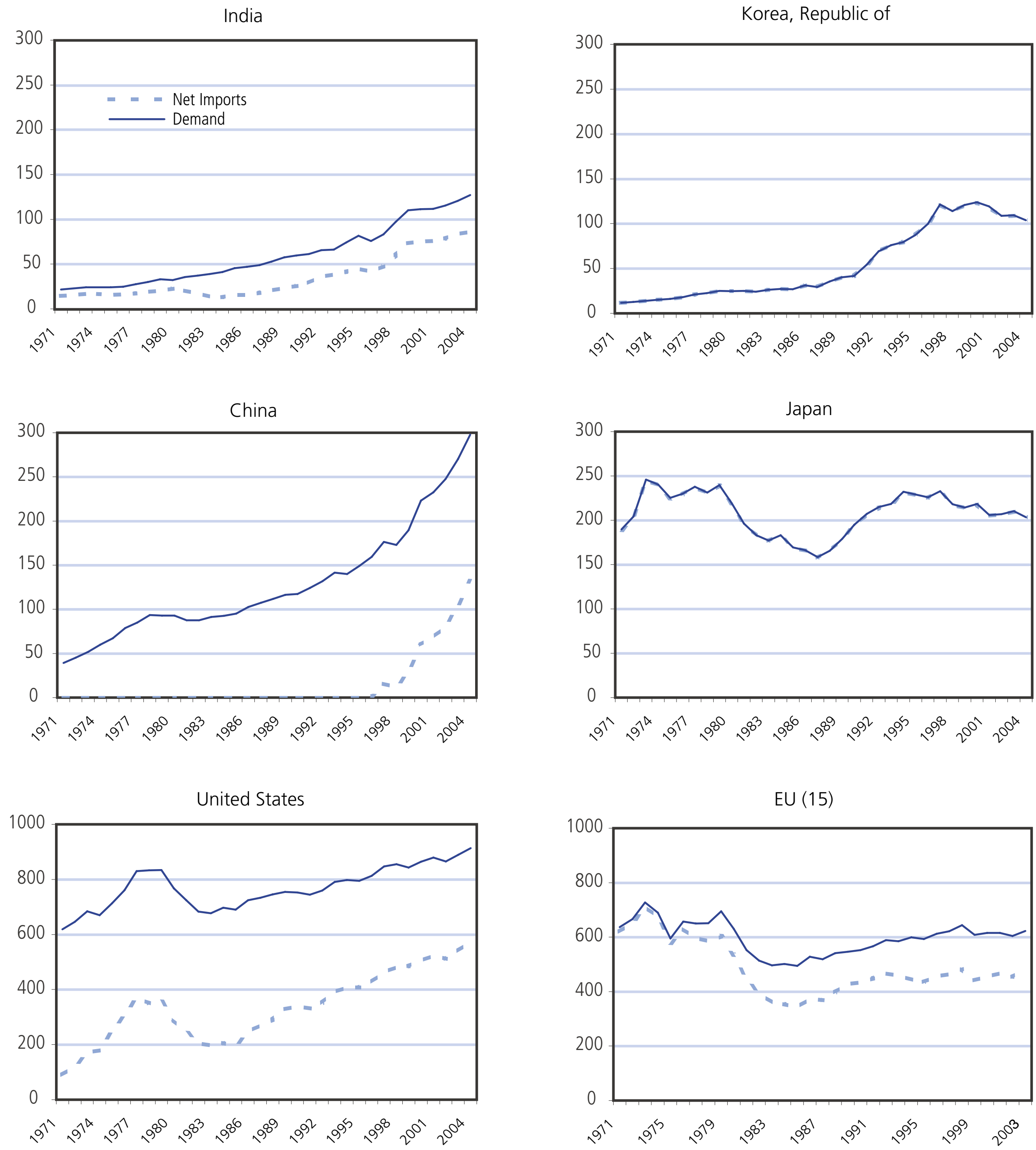
[9] Commercial services data reported below are based on Balance of Payments Statistics which do not cover all modes of supply. For the relative importance of modes of supply in trade of commercial services, see Box 3.

[10] According to U.S. Department of Labor statistics, oil tanker freight rates increased by more than one third and those of ocean liner freights by 9 per cent in 2004.

Chart 4

Oil demand and net oil imports of selected economies, 1971-2004

(Million metric tons)



Source: IEA, Oil information 2005.

travel receipts in 2004 did not fully recover to their previous peak level observed in 2000. Europe, which accounts for more than one half of global travel receipts, was the only region which recorded lower growth in 2004 than in 2003, a development largely due to the more moderate appreciation of the US dollar *vis-à-vis* the euro and other European currencies (see Chart 8).[11] African travel receipts continued to expand for the second year in a row, at a rate faster than worldwide receipts. In particular, North African countries reported a strong expansion of travel receipts (e.g. Egypt 34 per cent, Tunisia 25 per cent and Morocco 22 per cent). The expansion of South and Central America's exports of travel services (15 per cent) remained below the global average, as the sharply higher receipts of Brazil (30 per cent), Argentina (28 per cent) and Chile (27 per cent) contrasted with the stagnation of receipts of the Dominican Republic. The Dominican Republic, which was the region's largest exporter of travel services during the 2001-2003 period, was replaced by Brazil, which became South America's leading exporter of travel services for the first time in 2004.

[11] Expressed in euro terms, Europe's travel receipts rose by 4.1 per cent in 2004 and -0.9 per cent in 2003.

Box 3: The relative importance of modes of supply in trade of commercial services

The GATS refers to measures by Members affecting trade in services whereby *"services" include[s] any service in any sector except services supplied in the exercise of governmental authority.*[1] For the purpose of the negotiations, services were detailed in the Services Sectoral Classification List (GNS/W/120). GATS also defines four different modes through which services can be supplied. These are cross-border (mode 1), consumption abroad (mode 2), commercial presence (mode 3) and presence of natural persons (mode 4). Members of the WTO specify their commitments by type of service and by mode.

Trade analysts and negotiators are naturally interested in information on trade in services according to the above categories. Unfortunately, current statistical measures for international trade in services do not fully match the coverage of the Services Sectoral Classification List nor do they allow for the modal allocation of these transactions.

The recently adopted Manual on Statistics of International Trade in Services sets out a statistical framework that attempts to close this gap. It allows for an improved assessment of services trade liberalization in a GATS context.[2] It builds on existing statistical frameworks such as the IMF Balance of Payments Manual (BPM5) to measure flows related to modes 1, 2 and 4, and suggests the development of a new statistical framework for collecting information on the activities of affiliates abroad, the Foreign Affiliate Trade in Services (FATS) statistics framework.

The Balance of Payments (BOP) records international transactions between residents and non-residents of an economy. For services, these transactions are classified according to 11 main components: transportation, travel, communication, construction, insurance, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services, and government services not included elsewhere.

While these components collectively match the GATS product coverage relatively well, some deviations exist. For example, of the larger BOP royalties and licence fees component GATS refers only to franchise payments. Also the BOP statistics record the value of repair of most goods sent abroad in the goods account.

A further difficulty is that these international transactions in services often include delivery through several modes. Currently, statistical systems are not able to identify the share of different modes in an international transaction. The Manual consequently suggests the allocation of a services component to the mode believed to be mostly employed for delivering the service. For example, transportation services are deemed to be supplied cross-border and the transactions would be allocated to mode 1. Following this simplified approach, the Manual recommends the following statistical coverage of modes of supply.[3]

[1] The Results of the Uruguay Round of Multilateral Trade Negotiations, The Legal Texts, WTO, 1995.

[2] Manual on Statistics of International Trade in Services, Statistical Papers, Series M, No.86, United Nations.

[3] Manual on Statistics of International Trade in Services, Statistical Papers, Series M, No.86, United Nations, p.24

Statistical coverage of modes of supply (approximations)

Mode of supply	*Relevant statistical domains*
Mode 1: Cross border supply	BOP: part of commercial services (excluding *travel* and *construction services*)
Mode 2: Consumption abroad	BOP: *Travel*
Mode 3: Commercial presence	FATS statistics BOP: *construction services (part of)*
Mode 4: Presence of natural persons	BOP: part of commercial services (excluding *travel*) BOP: labour-related flows (supplementary information)

It should be mentioned that this approach does not strictly adhere to GATS concepts. Nevertheless, it allows a statistical approximation to be made on the relative importance of modes of supply.

FATS statistics are a new statistical framework that countries have started to implement in their standard data collection activities. The aim of this framework is to measure the affiliates activities, for example, their sales or value added. Currently, these statistics are mostly available for OECD members. Using these data on services-producing activities, the Secretariat estimated that global sales delivered through "commercial presence" are approximately 1.5 times higher than conventional trade (cross-border supply of services).[4] Combining this estimate with BOP statistics allows an estimation of trade flows in services according to their relative importance as follows:

cross-border supply	35%
consumption abroad	10-15%
commercial presence	50%
presence of natural persons	1-2%

[4] For more detailed information on FATS statistics, see International Trade Statistics Report 2004, Box 1

Exports of *other commercial services*, the largest and most heterogeneous group of the three major services categories, rose by 16 per cent to $1000 billion in 2004. In contrast to travel and transportation services the 2004 growth rate remained unchanged from the preceding year, and for the first time since 1995 also weaker than for all services combined. This untypical weak performance of other commercial services can be partly attributed to developments in US services trade. In 2004, US receipts for telecom services declined and those of insurance and education services rose only marginally.[12] In contrast to the deceleration of export growth in North America and Europe, Asia's exports of other commercial services recorded outstanding growth of nearly one quarter (its highest annual growth since 1980). Asia's growth in 2004 is partly affected by statistical revisions, resulting in an improved coverage of trade flows.[13] As a consequence of these revisions, India emerged as Asia's second largest exporter of other commercial services in 2004, ahead of China and Hong Kong, China.[14]

4. Trade by region and country

The large impact of the rise in commodity prices in 2004 on regional trade developments is highlighted by the fact that all those regions which export mainly primary products (i.e. fuels, other mining products and agricultural products) recorded the highest export growth rates in 2004. In three cases, Africa, the CIS and the Middle East, fuels and other mining products accounted for 55 to 75 per cent of their merchandise exports in 2004. The sharply higher export earnings allowed these regions to expand their merchandise imports at a rate faster than the global average, but still somewhat more slowly than their exports (Chart 5). The share of the four regions combined reached 12.8 per cent of world trade, the highest level in more than a decade. Merchandise exports of North America and Europe, however, expanded not only less rapidly than global trade but also less strongly than their higher priced imports. Asia's merchandise imports also rose faster than exports and more rapidly than world trade. Between 2000 and 2004, all regions increased their share in merchandise exports at the expense of North America, a reversal of the developments observed in the 1990s. North America, which had increased its share in world exports between 1990 and 2000 by almost three percentage points, lost nearly five percentage points in its share over the last four years.

A summary review of the annual trade performance of more than 180 individual countries in 2004 shows that the expansion was broadly based across individual traders for both merchandise and commercial services trade (exports and imports). The difference between global trade growth (the weighted average), the arithmetic average and the median value was less than two percentage points in every case in 2004. In addition, the standard deviation of the export and import growth rates, an indicator measuring the degree of variation of variables, was one of the lowest observed in the last decade. Another notable development in 2004 was the small number of traders which recorded a year to year decline in their exports and/or imports (ranging from 6 for commercial services imports to 21 for merchandise exports).

[12] Referring to unaffiliated services only. The sluggishness in insurance services was not due to a slowdown in premium receipts but to a marked reduction in payments for actual losses.

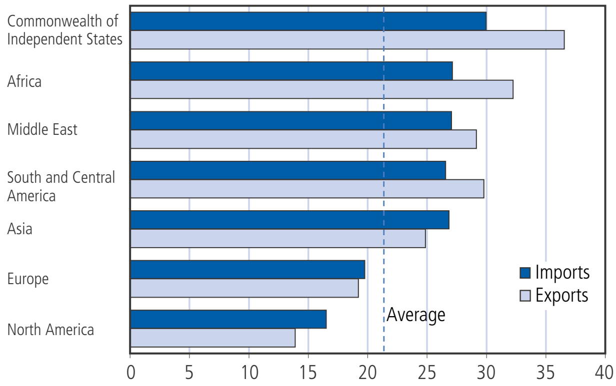
[13] Major revisions to the commercial services data in recent years were reported in a number of Asian countries, most recently for India.

[14] Unfortunately the explanations provided for the sharp upward revision of India's services trade remain scarce and therefore not fully understood.

Chart 5

World merchandise trade by region, 2004

(Annual percentage change in dollar values)



North America

Stronger economic growth in North America came together with an acceleration of the region's trade in 2004. The region's imports of both merchandise and commercial services continued to expand faster than its exports (Table 2). The nominal trade expansion of the United States, Canada and Mexico followed a rather similar pattern in 2004, as in each country an acceleration to double digit growth could be observed. However, some difference should be flagged in respect to trade volume developments. Real merchandise trade in the United States was more dynamic than trade in the other two countries. Canada recorded the lowest import growth in the region (8 per cent) and Mexico's exports recovered in real terms by a moderate 2.5 per cent after contracting over three years. In 2004, Mexico's clothing exports to the United States decreased, and those of labour intensive personal and household goods and scientific and control instruments stagnated, while shipments of automotive products rose less than US imports from other suppliers.

Intra-North American trade expanded as fast as the region's total exports but far less than overall imports in 2004. Between 2000 and 2004, the share of intra-regional trade remained roughly unchanged at 56 per cent on the export side, but decreased by 4 percentage points to slightly more than 35 per cent on the import side (Table III.13).

One of the outstanding features of North American trade in recent years is the moderate expansion of its exports to Asia and in particular to Japan, which is still its major export market in Asia. Between 2000 and 2003 North America's exports to Japan decreased by 29 per cent, while those to China surged by 70 per cent. In 2004, North American exports to Japan recovered by 5 per cent, while shipments to China grew by one quarter. Exports to Europe rose at about the same rate as intra-trade, while shipments to South and Central America, the Middle East, Africa and the CIS rose between 19 per cent and 31 per cent (Table III.12).

Imports from the three latter regions, all net exporters of fuels and minerals, were again buoyant, advancing between 23 per cent and 47 per cent in 2004 (Table III.13). North America's imports from Europe rose by 13 per cent, at roughly the same rate as intra-trade. Merchandise imports from Asia rose by 19 per cent, which was as fast as total imports. The average rise in North America's imports from Asia in 2004 is the result of quite divergent developments among Asian suppliers. While imports from China surged by more than 30 per cent, those from

Table 2

GDP and trade developments in North America, 2000-04

(Annual percentage change)

	North America					United States					Canada				
	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004
GDP	2.3	0.8	1.7	2.6	4.1	2.3	0.8	1.6	2.7	4.2	2.5	1.8	3.4	2.0	2.8
Merchandise															
Exports (value)	2	-6	-4	5	14	1	-7	-5	5	13	3	-6	-3	8	16
Imports (value)	5	-6	1	8	17	5	-6	2	9	17	3	-7	0	8	14
Exports (volume)	0.0	-5.0	-2.5	1.0	7.5	0.5	-6.0	-4.0	3.0	9.0	0.5	-4.0	0.0	-1.5	7.0
Imports (volume)	3.5	-3.5	3.5	4.5	10.5	4.5	-3.0	4.5	5.5	11.0	1.5	-6.0	0.5	4.0	8.0
Commercial services															
Exports (value)	3	-4	2	5	11	3	-4	2	5	11	4	-3	4	5	11
Imports (value)	6	-1	3	9	13	6	-1	2	8	14	6	-1	3	12	12

Singapore and Hong Kong, China decreased. Imports from Japan rose by 11 per cent in 2004, but their value remained below the peak level reached in 2000.

North American merchandise trade by product recorded large differences in annual variations for 2004, and a similar growth pattern can be detected for exports and imports. Exports and imports of agricultural products recorded the smallest year to year change (at about 10 per cent) among all sectors, while trade in fuels and other mining products rose between one quarter (exports) and one third (imports). Trade in manufactured goods, which account for three quarters of North America's merchandise exports and imports, rose by 14-15 per cent, very close to the region's overall trade growth. At a more detailed product level, the variation is considerably larger than for the three major product groups. North American exports of clothing shrank in absolute terms for the fourth consecutive year, while those of iron and steel rose by 37 per cent in 2004. Exports of chemicals, and in particular pharmaceuticals, increased by more than one fifth, as did telecommunication equipment. The strength of telecom equipment (22 per cent) contrasted with the continued sluggishness of exports in EDP and office equipment (6 per cent) as well as in integrated circuits (4 per cent). Imports of iron and steel products surged by 83 per cent, while those of automotive products and clothing rose by 8 per cent and 6 per cent respectively. Imports of telecom equipment rose by nearly one quarter, and in marked contrast to exports, imports of EDP and office equipment and integrated circuits grew at least as fast as trade in manufactures (Tables III.10 and III.11).

Commercial services exports and imports of the region accelerated to double digit growth but remained less dynamic than global trade in 2004. The expansion of services exports was rather similar for the United States, Canada and Mexico but differed significantly across sectors. The region's transportation services exports rose by nearly 19 per cent, while other commercial services exports rose by 6.5 per cent in 2004. As already indicated above, US receipts of telecommunication services declined and those of insurance and education services increased only marginally in 2004. Another factor contributing to the region's sluggish exports of other commercial services exports is the further decrease in Mexico's exports.

South and Central America (including the Caribbean)

Following three years in which the region's average per capita income declined, economic output in South and Central America picked up by 6.3 per cent in 2004. Merchandise trade expanded

Table 3

GDP and trade developments in South and Central America, 2000-04

(Annual percentage change)

	South and Central America					Brazil					Other South and Central America				
	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004
GDP	1.8	0.5	-1.4	2.1	6.3	2.2	1.4	1.5	0.6	5.2	1.5	-0.2	-3.8	3.3	7.2
Merchandise															
Exports (value)	9	-4	0	13	30	15	6	4	21	32	7	-7	-1	10	29
Imports (value)	4	-1	-13	5	27	3	0	-15	2	30	4	-1	-12	7	25
Exports (volume)	6.5	5.0	2.0	6.0	13.0	13.5	11.5	9.0	15.5	19.0	3.0	2.5	-1.0	1.5	10.0
Imports (volume)	1.5	1.5	-11.5	1.5	17.5	-0.5	0.0	-13.5	-3.5	18.0	2.5	2.0	-11.0	3.5	17.0
Commercial services															
Exports (value)	4	-2	-3	9	14	6	-3	1	9	20	4	-2	-4	10	13
Imports (value)	1	0	-11	4	14	1	2	-15	6	12	2	0	-10	3	15

sharply through a combination of higher prices and stronger volume changes. The rebound in the region's merchandise import volume from near stagnation to 17 per cent was particularly marked (Table 3). Intra-regional trade rose again slightly faster than extra-regional trade in 2004. Exports to Asia continued to rise sharply (37 per cent) while shipments to North America, the region's largest export market, rose by 27 per cent – somewhat less than the average (Table III.23). Shipments to Europe rose by nearly 30 per cent, accounting for more than one fifth of South and Central America's exports.

The region's expansion of merchandise exports and imports exceeded those of global trade by a significant margin, while commercial services trade grew at 14 per cent (less than the global average). The relative sluggishness of the region's commercial services trade could be observed in all three services categories, but was particularly pronounced for the other commercial services category.

Looking at the 38 individual economies' trade performances in the region, one notices quite divergent developments. Brazil, which accounted for one third of the region's merchandise exports showed a stronger trade performance than the regional average. The most dynamic export growth (between 40 per cent and 50 per cent) was reported by Chile, Venezuela and Peru (Table III.24), while merchandise exports of Costa Rica, the Dominican Republic and El Salvador increased only by 5 per cent or less. A few Caribbean islands even reported a decline in their exports in 2004. The surge in merchandise imports of Argentina and Venezuela (more than 60 per cent) contrasted with the moderate import growth of a number of Central American and Caribbean economies (such as Costa Rica, El Salvador, the Dominican Republic and Jamaica). At the core of the weak trade growth of Costa Rica, the Dominican Republic and El Salvador is the stagnation of their trade in manufactures with the United States (Table IV.25). Costa Rica's trade was affected by the sluggishness of trade in integrated circuits while the other two countries were affected by the decline in their textile processing trade with the United States.

The weakness observed in the merchandise exports of a number of countries in the region can be partly attributed to their export structure, which often reveals a large dependence on agricultural products. Agricultural products have faced relatively weak demand growth over the last two decades and relatively soft price trends. In 2004, price developments for agricultural products were rather mixed, simultaneously showing declines for a number of products (such as shrimps, cocoa, cotton and hides and skins) and marked increases for others (such as rice, beef, soybeans, bananas and rubber). The importance of agricultural products for the region's overall export performance is highlighted by the 29 per cent share this category holds in merchandise exports, a share which is more than three times larger than the corresponding share in world trade, and also by far the largest in any region (Chart 6).

Chart 6
Product structure of South and Central America's merchandise exports, 2004
(Percentage)

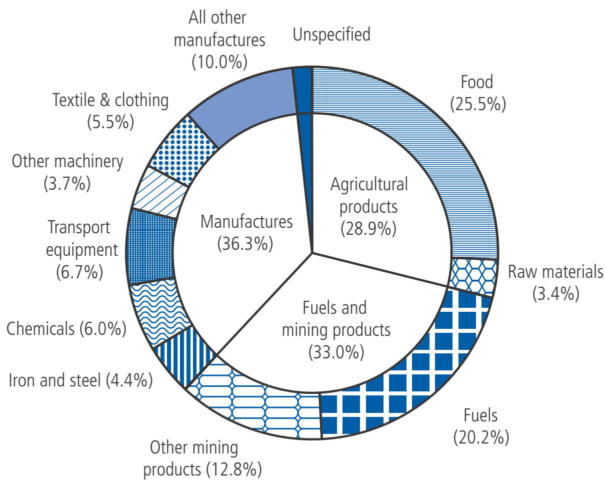
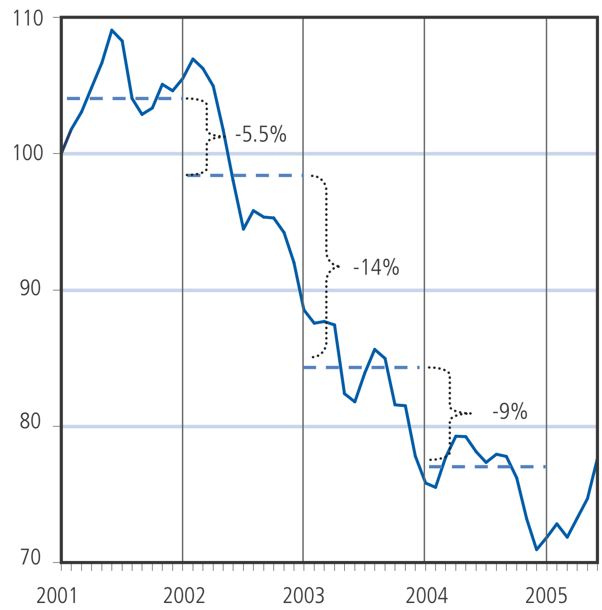


Chart 7
Dollar continued its decline vis à vis European currencies[a] in 2004
(Indices Jan 2001=100)



[a] Currency basket weighted by trade values. European currencies are those of Euro Area, the UK, Switzerland, Sweden, Norway, Bulgaria, Czech Rep, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak Rep.

Europe

Economic growth strengthened throughout Europe in 2004, but marked differences continued to prevail within the region. The euro-area and Switzerland staged a moderate recovery while the ten new EU members and South-East Europe reported GDP growth in excess of 5 per cent. Europe's merchandise and commercial services trade growth was somewhat less than the global average (in exports and imports), and recorded no acceleration in nominal growth in 2004, in contrast to all other regions. This relative weak nominal trade growth is due to the markedly lower depreciation of the dollar *vis-à-vis* the European currencies in 2004 compared to 2003, and the high level of intra-trade (Chart 7).

The share of intra-trade in merchandise exports is nearly three quarters, which is the highest share of intra-trade of all the seven major regions distinguished in this report (Table III.3). Measured in euro terms, merchandise exports rose by 8.3 per cent and those of commercial services by 6.5 per cent. These rates were higher than in the preceding year, when both decreased slightly (Table 4). Export and import volumes, adjusted for price and exchange rate changes, show that Europe's trade recovered by more than 6 per cent in 2004. Exports to other regions are estimated to have grown significantly faster than intra-trade and also faster than imports from these regions.

Europe's merchandise exports rose by 19 per cent, to $4030 billion – equivalent to 45 per cent of world merchandise exports in 2004. Iron and steel, fuels and other mining products reported the fastest growth due to large price increases, but combined these groups account for only 10 per cent of Europe's exports. Among manufactured goods, chemicals and transport equipment recorded much faster growth than exports of office and telecom equipment or textiles and clothing (Table IV.33). Given the large share of intra-trade, it is not surprising that the pattern of Europe's import growth by product remained rather similar to that of exports in 2004. On the import side, iron and steel and mining products are also the most dynamic product groups. Import expansion rates in these product groups exceeded those of chemicals and transport equipment, office and telecom equipment and textiles and clothing by a large margin.

Table 4

GDP and trade developments in Europe, 2000-04

(Annual percentage change)

	2000-04	2001	2002	2003	2004
GDP	1.5	1.6	1.2	1.0	2.3
Merchandise					
Exports (value in dollars)	11	1	7	19	19
Imports (value in dollars)	11	-2	5	20	20
Exports (value in euros)	3	4	2	-1	8
Imports (value in euros)	3	1	0	0	9
Exports (volume)	3.0	2.5	2.0	2.0	6.5
Imports (volume)	2.5	0.5	0.5	3.0	6.5
Commercial services					
Exports (value in dollars)	12	3	9	19	17
Imports (value in dollars)	11	3	8	19	15
Exports (value in euros)	4	6	3	-1	7
Imports (value in euros)	3	6	3	-1	5

Europe's merchandise trade with other regions showed large variations in 2004. Exports to North America, its largest export market, showed the smallest increase (14 per cent) not only in 2004 but also for the 2000-04 period.[15] As European imports from North America expanded even less than exports to North America, the bilateral surplus in Europe's favour increased further in 2004. Europe's merchandise trade with Asia (exports plus imports) has exceeded that with North America since the late 1990s. In 2004, Europe's imports from Asia rose by 23 per cent, slightly faster than exports to Asia, which widened the bilateral deficit. Europe's trade with Asia reveals a trend increase with China and a decrease in the share of Japan and the six more developed East Asian traders, which continued in 2004. Europe's trade with the CIS countries increased by more than one third on both the export and import side, making the region Europe's fastest growing trading partner not only in 2004, but also for the 2000-04 period. With a share of 2.2 per cent, Europe's exports to the CIS remained smaller than those to Africa or the Middle East, but its imports from the CIS exceeded those from the latter two regions.

The review of the leading merchandise traders in Europe (Table III.36) shows that at the country level the trade performances differed significantly. Broadly speaking, in 2004 the countries situated at the eastern and south-eastern border of Europe report much faster trade expansion than those in the western part of Europe. France, the United Kingdom, Spain, Ireland and Portugal recorded export growth between 12 per cent and 15 per cent, while Poland, the Czech Republic, Turkey, Romania and Bulgaria report expansion rates ranging from 30 per cent to 41 per cent. For the latter group of countries, imports showed a similar strong performance. Irish merchandise trade recorded the weakest growth in exports and imports in the region in 2004, a tendency discernible over the last four years. This recent development contrasts sharply with the 1995-2000 period when Ireland recorded trade expansion at a rate more than three times faster than the West European average. One major element in the loss of vigour in Ireland's trade is the importance of office and telecom equipment, a product group whose global exports expanded much faster than those of manufactures in the 1990s, while the opposite can be observed for the years 2000-2004.

Although Europe's commercial services exports and imports expanded less rapidly than the global average in 2004, its trade growth was still faster than world commercial services trade over the 2000-04 period (Tables III.4 and III.5). Europe's commercial services exports rose by 17 per cent, to $1125 billion, accounting for more than one half of world services exports in 2004. Commercial services imports went up by 15 per cent, to $1025 billion, an increase inferior to that of 2003. Europe's commercial services exports expanded faster than its imports in all three services categories, which enhanced the surplus position in all of them. Transportation services expanded faster than travel or other commercial services on the export and import side. Among the leading European traders in commercial services, the United Kingdom strengthened its leading exporter position, but the strongest export growth rates (in excess of one quarter) were reported by Sweden, Greece and Luxembourg. France and Switzerland reported relatively sluggish growth in their services exports, both in 2004 and in the 2000-04 period (Table III.38).

Commonwealth of Independent States (CIS)

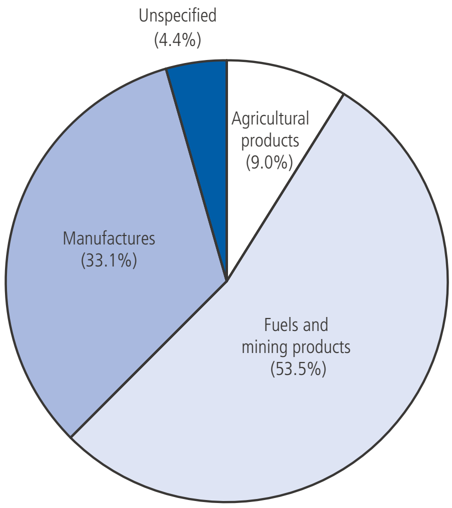
In 2004 the CIS recorded a GDP growth rate of nearly 8 per cent, the strongest of all regions. The trade expansion of the CIS was also more buoyant than that of any other region of the world (Table 5). The above average output and trade growth of the region in 2004, and also in the 2000-04 period, contrasts sharply with developments in the second half of the nineties, when economic activity was nearly flat and imports contracted (Table III.43). In 2003 and 2004, the region's trade benefited greatly from the price surge for fuels, ores and metals, products which accounted for more than one-half of the regions' merchandise exports in 2004 (Chart 8).

[15] With one exception: between 2000-2004 Europe's exports to South and Central America rose less than shipments to North America (2.8 per cent and 7.8 per cent respectively).

Chart 8

Product structure of CIS's merchandise exports, 2004

(Percentage)



CIS comprises 12 countries, but the Russian Federation alone accounts for two thirds of the region's merchandise exports and more than one half of its imports. Intra-regional trade rose slightly faster than total exports in 2004, and accounted for one fifth of the total. The importance of intra-regional trade differs significantly from one product group to another and also among members of the CIS. The share of intra-trade in CIS exports of agricultural products and manufactures was about one third, while for fuels and other mining products the share dropped to 13 per cent in 2004 (Table III.45).

Among the members of CIS, intra-regional trade accounted for more than one half of total exports for Belarus, Georgia and Moldova, while for the Russian Federation, Azerbaijan, Tajikistan and Armenia the corresponding share was about 17 per cent in 2004. On a country level, merchandise export and import growth was reported above the regional average by Kazakhstan, Belarus, Azerbaijan and Georgia. Armenian merchandise trade, however, expanded only marginally (Table III.46).

Europe is the largest trading partner for the CIS, accounting for nearly one half of its exports and merchandise imports in 2004. Two-thirds of CIS exports to Europe consist of fuels and other mining products, while manufactured goods account for nearly 90 per cent of imports from Europe. Asia's share in CIS exports decreased slightly, to 13.3 per cent in 2004. While Asia's share in CIS exports rose marginally between 2000 and 2004, its share in the imports of CIS gained four percentage points over the same period. Most of these gains can be attributed to China, which accounted for more than one-half of CIS imports from Asia in 2004.

CIS commercial services exports and imports continued to expand faster than world services trade, rising by nearly one-quarter in 2004. In contrast to merchandise trade, the region records an excess of commercial services imports over exports.

Africa

Economic growth in Africa was 4.5 per cent in 2003 and 2004, strong enough to exceed significantly the region's population growth (Table 6). While both North and Sub-Saharan Africa recorded robust growth on average, individual country performances varied greatly. Double digit GDP growth could be observed in a number of countries that expanded their oil production (e.g. Angola, Chad, Equatorial Guinea and Sudan). A few countries recorded a marked pick-up in economic activity as civil strife was reduced (e.g. Sierra Leone and the Democratic Republic of Congo), while in others political instability led to stagnation or a decline in economic output.

Africa's trade expansion remained robust in 2004 due to the rise in global demand for its major export commodities. Over the two years 2003-04, the value of Africa's merchandise exports (imports) increased by two thirds (55 per cent), which was more than over the 12 preceding years (1990-2002). Commercial services exports rose by 20 per cent in 2004, again faster than the world average and faster than the region's commercial services imports. Travel services receipts, which account for more than one half of Africa's commercial services exports, are estimated to have increased by somewhat more than 20 per cent in 2004.

The outstanding feature of Africa's merchandise exports was the 44 per cent rise in shipments of fuels and mining products in 2004. Fuels alone accounted for nearly 52 per cent of Africa's merchandise exports and other mining products for about 7 per cent (Chart 9). Exports of agricultural products and manufactures are both estimated to have increased in value terms by one fifth in 2004. Among agricultural products, shipments of raw materials rose by more than a quarter,

Table 5

GDP and trade developments in the Commonwealth of Independent States (CIS), 2000-04

(Annual percentage change)

	CIS					Russian Federation					Other				
	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004
GDP	6.7	5.9	5.2	7.6	7.9	6.0	5.1	4.7	7.3	7.1	8.5	8.4	6.8	8.5	10.3
Merchandise															
Exports (value)	16	-1	6	27	37	15	-3	5	27	35	20	6	8	28	40
Imports (value)	21	16	10	27	30	21	20	13	25	27	20	10	6	31	35
Exports (volume)	9.5	4.5	8.5	13.0	13.0	...	...	...	...	...	...	...	...	...	...
Imports (volume)	15.0	24.5	8.0	13.0	15.0	...	...	...	...	...	...	...	...	...	...
Commercial services															
Exports (value)	18	13	19	16	23	20	17	20	20	25	15	8	18	12	20
Imports (value)	20	24	16	17	25	19	23	15	16	24	23	26	20	19	27

Table 6

GDP and trade developments in Africa, 2000-04

(Annual percentage change)

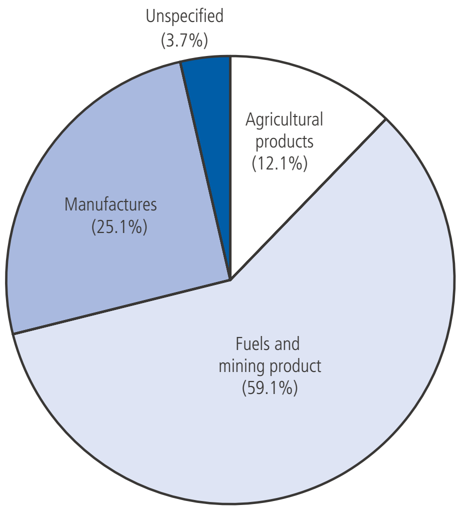
	Africa					South Africa					Other Africa				
	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004
GDP	4.0	3.5	3.4	4.5	4.4	3.2	2.7	3.6	2.8	3.7	4.1	3.7	3.4	5.0	4.6
Merchandise															
Exports (value)	12	-7	2	25	32	11	-2	2	23	26	12	-8	2	26	34
Imports (value)	13	4	2	22	27	18	-5	4	40	39	11	6	1	17	23
Commercial services															
Exports (value)	12	1	4	24	20	13	-7	1	60	10	11	2	5	18	22
Imports (value)	10	2	6	16	16	13	-10	3	49	16	9	4	6	11	15

while fish exports rose at only half that rate. Africa’s clothing exports rose by 10 per cent, to $9.5 billion dollars in 2004. The expansion of Africa’s clothing exports to the European Union and the United States decelerated sharply in 2004 if compared with 2003. Exports of other semi-manufactures, the largest product group within Africa’s exports of manufactures, which includes precious stones, rose by nearly one quarter, to $16.4 billion in 2004.

Chart 9

Product structure of Africa's merchandise exports, 2004

(Percentage)



The Middle East

Economic growth in the Middle East remained robust, with average regional GDP growth exceeding 5 per cent in 2004. Oil and gas production, still the core economic activities of the region, increased by 6.5 per cent and 7.5 per cent respectively.[16] The marked increase in oil and gas output combined with sharply higher prices led to booming trade in 2004. The region’s merchandise exports rose by 29 per cent, to a new record export level of $390 billion dollars (Table 7). The share of the Middle East in world merchandise exports rose to 4.4 per cent, its highest level since 1990 (Table III.58). The region’s merchandise import growth accelerated to 27 per cent, and imports amounted to $252 billion in 2004. The share of the Middle East imports in world imports rose to 2.7 per cent, which was still below the level recorded in 1990.

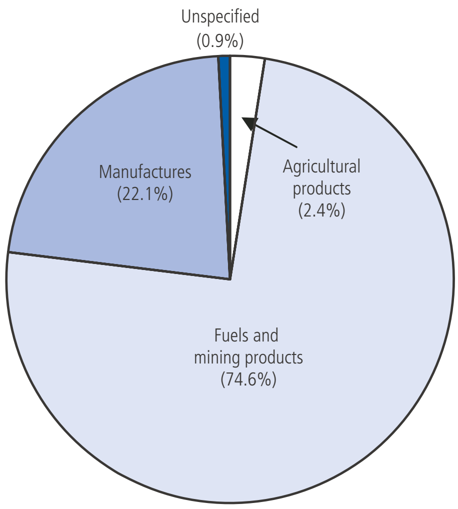
Fuels, which accounted for 73 per cent of the region’s exports, rose by nearly one third to $284 billion in 2004. This represented 29 per cent of global trade in fuels (Chart 10). Chemicals, mainly petrochemicals, are the principal product group among the manufactured goods exported from the Middle East. Their shipments increased by 30 per cent, to $25.8 billion in 2004. Exports from the Middle East are largely destined for Asia which alone accounted for one half of the region’s total exports in 2004. Europe and North America both hold a share of about 15 per cent in Middle East exports. Intra-regional trade is estimated to have been in the range of 5 per cent to 10 per cent in recent years, most likely the lowest intra-regional trade share of all seven regions distinguished in this report.

The importance of Asia as an export market for the Middle East is particularly pronounced in fuels trade. The region’s exports of manufactures are more evenly shared by Europe (24 per cent), Asia (23 per cent) and North America (20 per cent) (Table III.60).

Chart 10

Product structure of the Middle East's merchandise exports, 2004

(Percentage)



[16] See BP, Statistical Review of World Energy, June 2005.

Commercial services exports from the Middle East are estimated to have increased by 16 per cent, to $36 billion, or two per cent of world services exports in 2004. Commercial services imports rose by 20 per cent to $61 billion, accounting for three per cent of global services imports. Israel is the largest services exporter in the region ($14 billion) and the United Arab Emirates the region's biggest services importer.

Table 7

Trade developments in the Middle East, 2000-04

(Annual percentage change)

	2000-04	2001	2002	2003	2004
GDP	4.4	2.5	3.6	5.2	6.3
Merchandise					
Exports (value)	10	-11	5	20	29
Imports (value)	12	6	4	13	27
Commercial services					
Exports (value)	5	-5	-2	13	16
Imports (value)	7	-3	1	12	20

Asia

The rise in Asia's GDP growth to nearly 5 per cent in 2004 was due to an increase in Japan's GDP growth and a continuation of strong output growth in developing Asia, particularly China. The region's merchandise export and import volumes are estimated to have risen by 14 per cent, about three times faster than GDP growth (Table 8). The marked acceleration in the region's merchandise exports and imports in dollar terms is more due to price than volume changes. Asia's merchandise imports rose by 27 per cent to $2224 billion in 2004, with nearly half of the increase due to higher import prices.

Asia's commercial services exports and imports rebounded by about one quarter in 2004. The interpretation of this outstanding expansion has to take into account the fact that Asia's commercial services trade was negatively affected by the impact of the SARS epidemic in 2003. Travel receipts recovered sharply (31 per cent) from their exceptionally low level in 2003. Estimates of Asia's commercial services trade flows in 2004 include the latest Indian services data, which do not seem to be directly comparable with those reported for 2003, due to enhanced coverage. Excluding Indian data from Asia's services trade aggregate lowers the region's growth rates reported above by 2 to 4 percentage points.

But even taking into account these "special" features noted above, Asia's commercial services trade remained one of the most dynamic regional trade flows in 2004. A breakdown of Asia's commercial services reveals that transportation services were particularly strong in 2004.

Asia's agricultural exports rose by 18 per cent to $143 billion, and accounted for 6 per cent of the region's merchandise exports. Shipments of fuels and mining products rose by one third, while exports of manufactures went up by one quarter. Among Asia's exports of manufactures, iron and steel and scientific and controlling instruments increased by one half, which was much faster than exports of clothing (13 per cent), textiles (16 per cent) or automotive products (20 per cent). Asia's shipments of office and telecom equipment rebounded by one quarter to $625 billion, maintaining their share of 31 per cent in Asia's exports of manufactures.

Intra-Asian trade, accounting for one half of Asia's merchandise exports, expanded slightly faster than total exports. China further consolidated its position as the leading market in the region for Asian traders, with Asia's exports to China rising by 30 per cent in 2004. The rapid rise in China's importance as a trading partner of individual economies is shown in Chart 1. In only four years, China's share has doubled in the imports and exports of a number of Asian traders. Asia's exports to North America rose by 20 per cent, while those to Europe increased by 24 per cent. In 2004, but also over the last four years, the share of North America in Asia's exports decreased to 22.3 per cent, while that of Europe remained unchanged at 17.5 per cent (Table III.68).

Although Asia's shipments to the Middle East, Africa, South and Central America and the CIS increased much faster than those to other regions, their combined share in Asia's merchandise exports was still less than 8 per cent in 2004.

Table 8

GDP and trade developments in Asia, 2000-04

(Annual percentage change)

	Asia					Japan					Developing Asia [a]				
	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004	2000-04	2001	2002	2003	2004
GDP	3.3	2.2	2.6	3.8	4.8	1.0	0.4	-0.3	1.4	2.7	5.2	4.4	5.8	5.3	5.3
Merchandise															
Exports (value)	10	-9	8	18	25	4	-16	3	13	20	12	-7	10	20	27
Imports (value)	10	-7	6	19	27	5	-8	-3	14	19	12	-7	9	21	30
Exports (volume)	8.0	-3.5	11.0	11.5	14.0	3.0	-9.5	8.0	5.0	10.5	10.5	-1.0	13.0	14.5	16.0
Imports (volume)	8.0	-2.5	8.0	13.0	14.5	3.5	-2.0	2.0	7.0	7.0	9.5	-2.5	10.0	15.0	16.5
Commercial services															
Exports (value)	10	-1	7	9	27	7	-6	2	8	25	11	1	9	8	28
Imports (value)	8	-3	5	8	25	4	-7	0	3	22	11	0	7	10	27

[a] Defined as Asia excluding Japan, Australia and New Zealand.

5. Trade developments of selected Regional Trade Agreements and of the LDCs

Regional trade agreements (RTAs)

Information on a number of major regional trade agreements is provided in Table I.10 and Appendix Table A.3. Intra-trade of the enlarged EU lagged behind its extra-regional exports and imports in 2004. Despite a further rise in the European currencies *vis-à-vis* the US dollar, which tends to boost the share of intra-EU trade, subdued growth in EU countries kept nominal intra-regional export growth below that of extra-regional exports. Extra-regional imports comprise a larger component of fuels than intra-trade, which contributed to the strength in extra-regional import values.

Although the EU's extra-regional trade expanded somewhat faster than its intra-regional trade, at more than two thirds of total EU trade, the latter remained far more important than in any other major RTA. NAFTA's intra-trade expanded by 14 per cent, in line with its total export growth, but lagged behind its overall import growth in 2005.[17] In 2004, ASEAN's intra-trade rose by 22 per cent, which was faster than its exports to other regions, but not as fast as imports from outside the region. The share of intra-regional trade in ASEAN's exports and imports remained at 23 per cent in 2004, below the levels reached in 2000, and for exports even below the level reached in 1995.

Intra-MERCOSUR trade recovered strongly as the economies of its members experienced a sharp rebound in their GDP growth in 2004. However, despite the recent surge in intra-trade, its value in 2004 was still lower than in 1997, and accounted for about one-eighth of MERCOSUR's total merchandise exports.

In five major RTAs, no trend can be detected in respect of an increase or decrease in the relative importance of intra-RTA trade between 2000 and 2004. The number of cases in which an increased share of intra-trade could be observed is identical to that in which a decrease occurred. The large differences in the importance of intra-trade in total trade among the various RTAs, ranging from two thirds to less than 15 per cent, continued to prevail.

Trade of the Least-developed countries (LDCs) in 2004

Benefiting from the rise in commodity prices, merchandise exports of the LDCs increased by one third to $62 billion in 2004, a new peak level. Exports of the five oil-exporting LDCs[18] alone increased by about one half and their combined exports accounted for some 47 per cent of the total merchandise exports of the 48 LDCs in 2004. LDCs merchandise imports are estimated to have increased by 17 per cent to $71 billion, only half the expansion rate of their exports (Table III.81).

The group of LDCs which exports primarily manufactured goods increased their shipments by 19 per cent to $17 billion, an increase close to that of world exports of manufactures. The trade performance of the LDCs that export primarily non-fuel commodities again showed very large variation in 2004. Ores and non-ferrous metal exporters, such as Zambia and Mozambique, reported a sharp export rise while other LDCs experienced a marked decline in their exports for various reasons.

Looking at the major trading partners of the LDCs, it appears from the data presented in Table III.82 that the EU(25) is the largest market for manufactures originating from the LDCs ($9.2 billion) and Asia[19] the largest market for its fuel exports ($10.6 billion). In 2004, the EU(25) was still the largest market for LDC exports of agricultural products ($3.2 billion), but Asia's imports of agricultural products from LDCs increased much faster and also exceeded the $3 billion mark. North American imports from LDCs consist above all of fuels and other mining products ($7.3 billion) and manufactured goods ($6.1 billion). Agricultural products accounted for only five per cent of North American merchandise imports from the LDCs in 2004.

6. Trade developments in the first half of 2005 and prospects

The cyclical downswing of economic activity in the OECD, which started in the first half of 2004, was arrested in the first six months of 2005. It is estimated that the year-to-year change in GDP growth of the OECD countries was limited to 2.6 per cent in the first half of 2005, markedly less than the 3.5 per cent full year growth in 2004 (Chart 11). Signs of an improvement in the economic situation could be found in the Japanese economy, which after stagnating in most of 2004, experienced a revival in domestic demand growth in the first six months of 2005. In Europe, and in particular in the euro area, GDP growth remained weak. Despite some deceleration, economic activity in the United States remained far stronger than in Europe or Japan. A noticeable development in the United States economy was that exports of goods and services – measured at constant prices and seasonally adjusted – expanded somewhat faster than imports in the first half of 2005. Among the developing regions, a slowdown from last year's high growth rates could be observed in a large number of economies in East Asia as well as in South America. China was a major exception, as its first half growth of 9.5 per cent in 2005 matched that of 2004. Despite the continuous strength in its economic activity, China's real import growth decelerated sharply, while its export growth was maintained.

The marked depreciation of the US dollar against a trade-weighted basket of European currencies between April and December 2004 was reversed in the first six months of 2005. By mid-year 2005, the dollar had regained most of its losses and even exceeded its average value in 2004 (Chart 8). Exchange rate movements in Asia were rather moderate, although in a direction favourable for an adjustment in worldwide external imbalances. The US dollar's moderate depreciation against a basket of Asian currencies in 2004 continued in the first half of 2005. With the termination of the fixed peg of the Chinese Renminbi to the US dollar on July 21, and a shift to a new currency regime, a small appreciation of the Chinese currency occurred against the US dollar.

Despite the slowdown in global economic activity, commodity prices strengthened considerably in the first half of 2005. In particular, prices for metals and crude oil increased further by 24 per cent and 43 per cent respectively (on a year to year basis). However, prices of agricultural raw materials stagnated

[17] Intra-NAFTA trade growth measured by exports differed in 2004 from that recorded by import data due to reporting discrepancies on bilateral trade between the United States and Mexico.

[18] Angola, Equatorial Guinea, Yemen, Sudan and Chad.

[19] Based on a sample of 12 Asian economies. For details see Table III.82.

Chart 11

Real GDP and trade growth of OECD countries, 2003-05

(Percentage change on a quarter to quarter basis)

Source: OECD, National Accounts Statistics.

and those of food decreased. Available information on prices for manufactured goods indicates an increase of about four per cent.[20] The sharp rise in prices of fuels continued unabated into the third quarter and provided a further boost to the exports of all oil exporting regions, and in particular the Middle East, the CIS and Africa. However, the estimated 40 per cent increase in real crude oil prices is threatening to dampen economic growth in the United States, Western Europe and East Asia (Chart 12).

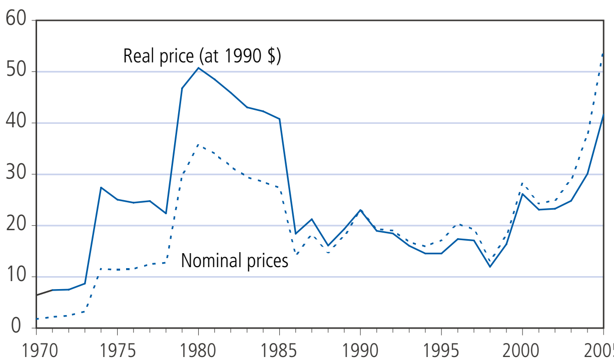
It is estimated that the dollar value of world merchandise exports increased by 14 per cent in the first half of 2005. This is a markedly lower expansion than in 2004, when the value of global merchandise exports rose by 21 per cent. The trade deceleration was particularly pronounced in Asia and in Europe. North America's imports increased in nominal terms about as fast as world trade and still faster than its merchandise exports.

Adjusted for price and exchange rate changes, trade of the major industrial economies stagnated in the first quarter of 2005, but picked up in the second quarter. It is unlikely that the momentum of the rebound in the second quarter can be upheld in the second half of the year, given the poor short-term growth prospects for Europe and uncertainty linked to sharply higher and volatile oil prices. Increased import demand from the oil exporting regions will not be sufficient to offset weaker import growth in the United States, Europe and East Asia. The volume of world merchandise trade is projected to rise by 6.5 per cent in 2005, and provided the world economy recovers moderately in 2006 – as is generally predicted – world trade growth should accelerate again to around 7.0 per cent in 2006.

Chart 12

Nominal and real petroleum prices, 1970-2005

($ per barrel)



Note: Real price is obtained by deflating the nominal IMF petroleum spot price by the world GDP deflator (1990=100). 2005 annual data are estimated by assuming for the second half an average price of $60 per barrel.

[20] US import (export) prices of manufactured goods increased by 2.2 per cent (3.5 per cent) in the first six months of 2005.